

FAYETTEVILLE-LINCOLN COUNTY

REGIONAL AIRPORT AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017

FAYETTEVILLE-LINCOLN COUNTY
REGIONAL AIRPORT AUTHORITY

FINANCIAL STATEMENTS

AS OF JUNE 30, 2017

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY

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FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY

SCHEDULE OF BOARD MEMBERS

JUNE 30, 2017

Ron Mahal, Chairman

Jack Towry, Vice Chairman

Robert Strobe, Secretary

Walt Shurden, Treasurer

Pam Bryson (resigned December 2016)

Charlie Beyer (appointed May 2017)

DAVID A. KIDD
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Fayetteville-Lincoln County Regional Airport Authority:

Report on the Financial Statements

I have audited the accompanying financial statements of the Fayetteville-Lincoln County Regional Airport Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fayetteville-Lincoln County Regional Airport Authority as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note A to the financial statements, in 2017 the Fayetteville-Lincoln County Regional Airport Authority changed from reporting as a governmental fund type to a proprietary fund type. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fayetteville-Lincoln County Regional Airport Authority's basic financial statements. The budgetary comparison information, the schedule of expenditures of federal awards and state financial assistance, and the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information and the schedule of expenditures of federal awards and state financial assistance are the responsibility of the Airport's management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, this information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Board Members presented in the introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 3, 2018 on my consideration of the Fayetteville-Lincoln County Regional Airport Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fayetteville-Lincoln County Regional Airport Authority's internal control over financial reporting and compliance.

January 3, 2018

DAVID A. KIDD

Management's Discussion and Analysis

This narrative discussion and analysis is intended to serve as an introduction to the Fayetteville-Lincoln County Regional Airport Authority's (Authority) basic financial statements for the fiscal year ended June 30, 2017. The information presented here should be read in conjunction with the financial statements, footnotes, and supplementary information found in this report. The Fayetteville Municipal Airport (Airport) is a joint venture of the City of Fayetteville and Lincoln County of the State of Tennessee and is operated by the Authority.

A Brief Discussion of the Financial Statements

The Authority fund is structured as a proprietary fund. The reporting presentation changed from governmental in 2016 to proprietary in 2017 and the MD&A has been modified to conform to the new presentation. The fund resources are from the State of Tennessee, Lincoln County, the City of Fayetteville, leases of airport premises, and financing obtained by the Authority through a local bank for the construction of revenue producing facilities, such as aircraft storage hangars. All expenses are from this fund. The financial statements are prepared on the accrual basis of accounting, meaning that revenues are recognized when earned, rather than when received, and expenses are recognized when liabilities are incurred, rather than when paid. Capital assets (items which costs over \$500 and have a useful life of more than one year), other than land, are capitalized and depreciated over their useful lives. Land is also capitalized (recorded as a capital asset), but not depreciated.

Included in this Management's Discussion and Analysis (MD&A) are the basic financial statements and supplemental schedules of the Authority. This information, taken collectively, is designed to provide readers with an understanding of the Authority's finances.

During the past years, the Authority has continually taken actions to improve the utility, safety, and security of the airport. The major actions include the acquisition of land, the extension of the runway and taxiway, the rehabilitation of the runway, the construction of aircraft storage hangars, and the replacement of aged fencing and gates around the perimeter of the airport. The Authority leases the airport to Fayetteville Aviation, Inc, for day to day operation of the airport and servicing of aircraft. The President of Fayetteville Aviation, Mr. Mark Cobb, also serves as the Airport Manager. The Authority's goal is and has been to provide an airport which will properly accommodate and provide security for not only small aircraft for private individuals, but also larger aircraft used by businesses. There are no scheduled airline operations at the airport.

These projects were accomplished in phases due to the availability of State grant funds and matching local funds. Some of these phases were in progress during the prior fiscal year and some will extend into the next fiscal year. These projects are funded by the State of Tennessee, using State and Federal funds, and by local funds provided by the City of Fayetteville, Lincoln County, and Authority initiated bank loans. Before major projects begin, the State requires that the Authority deposit the local funds with the State. As costs are incurred, the State reimburses the Authority 100% which includes grant funds from the State plus a proportionate deposit

refund of local funds. The matching of State/Federal funds with local funds is on a percentage basis and varies from 5% to 50% depending on the type of project. The local funding on grants in progress during Fiscal Year 2017 was 5%, with the exception of a maintenance grant and a minor portion of a land acquisition grant which were at 50% of the project total cost. The State does not require the deposit of local funds for minor projects and for the maintenance grant.

The significant changes discussed in the following statements, analysis, and comments are the results of major projects, the Authority's methods of financing, and these actions crossing fiscal years. Airport operations, excluding the activities of major projects, are fairly consistent from year to year and have minimum effect on the overall financial operations of the Airport.

Statement of Net Position

The *Statement of Net Position* presents information on the Authority's assets and liabilities, with the difference between the two reported as the net position. The net position reflects the Authority's financial position and over time the increases and decreases may serve as a useful indicator of the Authority's operation and the Airport's financial health. This statement presents not only the information for the most recent fiscal year which ended June 30, 2017, but also includes comparable information for the previous fiscal year with increases and decreases shown by percent and amount.

The cash balance, the local project funds on deposit with the State for approved grants, the amount due from the State of Tennessee, and as well as accounts payable, fluctuate due to the timing of payments and reimbursements on airport projects. We normally pay invoices for operations and for minor projects upon receipt; however, invoices for major projects are not paid until reimbursement is received from the State. This practice, which is made known to project vendors up front, is necessary due to the limited funds on hand.

STATEMENT OF NET POSITION

ASSETS

	June 30, 2017	June 30, 2016	Percent Increase -Decrease	Amount Increase (Decrease)
CURRENT ASSETS:				
Cash	29,931	8,700	244.0%	21,231
Project funds held by State of Tennessee	956	13,161	-92.7%	(12,205)
State of Tennessee grant receivables	1,173	159,076	-99.3%	(157,903)
Total Current Assets	32,060	180,937	-82.3%	(148,877)
NONCURRENT ASSETS:				
Capital assets, net of accumulated depreciation	6,022,660	6,269,681	-3.9%	(247,021)
Total Noncurrent Assets	6,022,660	6,269,681	-3.9%	(247,021)
TOTAL ASSETS	6,054,720	6,450,618	-6.1%	(395,898)

LIABILITIES

CURRENT LIABILITIES				
Accounts payable	1,105	6,010	-81.6%	(4,905)
Note payable	0	162,500	-100.0%	(162,500)
Current portion of long-term debt	55,600	16,310	240.9%	39,290
Total Current Liabilities	56,705	184,820	-69.3%	(128,115)
NONCURRENT LIABILITIES				
Long-term debt	55,600	71,878	-22.6%	(16,278)
Less current portion	(55,600)	(16,310)	240.9%	(39,290)
Total Noncurrent Liabilities	0	55,568	-100.0%	(55,568)
TOTAL LIABILITIES	56,705	240,388	-76.4%	(183,683)

NET POSITION

Investment in capital assets	5,967,060	6,043,157	-1.3%	(76,097)
Restricted	956	0		956
Unrestricted	29,999	167,073	-82.0%	(137,074)
TOTAL NET POSITION	5,998,015	6,210,230	-3.4%	(212,215)

The major change in assets during the fiscal year was (a) the receipt of the final reimbursement for the acquisition of a partial of land adjoining the airport property (\$157,903) which reduced the receivables due from the State and (b) recorded depreciation of fixed assets for Fiscal Year 2017 (\$252,054).

The significant decrease in liabilities was the payment of a note for \$162,500 payable to the seller of the above mentioned parcel of land plus the principal amount of payments (\$16,278) to a local financial institution for three loans used to provide the local funds for State grants. Detailed comments concerning long-term liabilities are included in the Debt Activity section of this analysis.

The total assets of the Authority decreased by \$ 395,898 and the total liabilities decreased by \$183,683 resulting in a reduction of the net position during the fiscal year ending June 30, 2017, by \$212,215 or 3.4%.

Statement of Revenues, Expenses, and Changes in Fund Net Position

The *Statement of Revenues, Expenses, and Changes in Fund Net Position* is similar to a Profit and Loss Statement which analyzes the source of revenues and expenses and presents the difference between the two as changes in net position and should be considered in connection with the other statement presented in this MD&A. The Statement of Net Position not only analyzes the net position as of June 30, 2017 but also presents the changes in net position from the previous year. The change in net position is an indication of the financial health of a business. A continued increase is healthy and a continued decrease is unhealthy.

This statement compares the most recent two fiscal years to show revenues and expenses related to operations, non-operations and capital contributions from the State and the resulting effect on the net position. This analysis with its accompanying comments is intended to help readers to understand significant changes in the net position of the Authority.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

	June 30, 2017	June 30, 2016	Percent Increase (Decrease)	Amount Increase (Decrease)
OPERATING REVENUES:				
Rent				
Total Operating Revenues	37,169	36,455	2.0%	714
OPERATING EXPENSES:				
Maintenance	17,837	39,862	(55.3)%	(22,025)
Utilities	20,208	20,276	(0.3)%	(68)
Insurance	11,240	11,951	(5.9)%	(711)
Travel and Conventions	2,411	2,819	(14.5)%	(408)
Audit	1,750	1,750	0.0%	0
Advertising	723	1,337	(45.9)%	(614)
Depreciation	252,054	250,168	0.8%	1,886
Engineering – Airport Layout Plan	0	31,907	(100.0)%	(31,907)
Other	472	751	(37.2)%	(279)
Total Operating Expenses	306,695	360,821	(15.0)%	(54,126)
Operating Income(Loss)	(269,526)	(324,366)	20.3%	54,840
NON-OPERATING REVENUES(EXPENSES):				
Intergovernmental				
Lincoln County	25,940	31,687	(18.1)%	(5,747)
City of Fayetteville	21,500	31,687	(32.1)%	(10,187)
State of Tennessee maintenance and ALP grants	8,343	50,044	(83.3)%	(41,701)
Interest Income	27	34	(20.6)%	(7)
Interest Expense	(2,111)	(3,271)	55.0%	1,160
Loss on disposal of fixed assets		(33,040)		33,040
Total Non-operating Revenues(Expenses)	53,699	77,141	(30.4)%	(23,442)
Income(Loss) before capital contributions	(215,827)	(247,225)	14.5%	31,398
CAPITAL CONTRIBUTIONS:				
State of Tennessee capital grants	3,612	361,982	(99.0)%	(358,370)
Total Capital Contributions	3,612	361,982	(99.0)%	(358,370)
INCREASE(DECREASE) IN NET POSITION	(212,215)	114,757	(284.9)%	(326,972)
NET POSITION, beginning of year	6,210,230	6,095,473	1.9%	114,757
NET POSITION, end of year	5,998,015	6,210,230	(3.4)%	(212,215)

The net position decreased by \$212,215 during the fiscal year ended June 30, 2017. Ordinarily a business cannot sustain a decrease and continue to operate; however, the airport is considered by the State, County, and City as beneficial to the economic health of the surrounding area and provides financial support to the Authority. The County and the City provide funds to cover the deficit in operation and also provides local funds for State grants. Funds from the County and the City are based upon a zero net change in net position. In other words, the airport is operated as a non-profit organization.

The major item that contributed to the decrease in net position was depreciation of capital assets. The Authority calculates depreciation on a straight line basis with a residual value of 10% of the asset cost and estimated life by major assets category based upon IRS guidelines. For fiscal year 2017, depreciation was \$252,054. Capital assets which are depreciated are replaced or added as necessary with funds from the State, County, and City with one exception. Revenue producing assets, primarily aircraft storage hangars, are funded by State grants, but the local funds are obtained from bank loans. The loans are paid over time, not to exceed ten years, from increased rental revenues.

Normally there is very little change in operations from one year to the next. However, the operating loss for fiscal year 2017 was \$54,840 less than the loss for the previous year. Maintenance expenses were \$22,052 more in the previous year due largely to repairs to the taxiway and ramp area (\$11,995) and the painting of an aircraft storage hangar (\$4,500). Also Engineering expenses for the Airport Layout Plan in fiscal year 2016 were \$31,907 versus zero for fiscal year 2017.

Non-operating revenues decreased in fiscal year 2017 compared to the previous year because reimbursements from the State decreased due to decreased claims for maintenance and engineering expenses as stated above. The support from the City and the County also decreased because local funds (\$29,100) were provided in fiscal year 2016 for a State grant to purchase land. These decreases in revenues were offset somewhat by a decrease in expenses of disposing and writing off the depreciated value (\$33,040) of four items of capital equipment – Simplified Directional Facility (SDF) used for instrument approach and landing in minimum weather conditions, a Localizer used for the same purpose as the SDF, UPS backup for the SDF and the previously decommissioned Non-directional Radio Beacon (NDB) navigation system, and NEXWOS which provided pilots local weather reports.

The most significant change in the net position when comparing the two fiscal years was the decrease in capital contribution from the State (\$358,370). This decrease was due to the completion of three projects in fiscal year 2016: Land acquisition, Pond Closure, and Aircraft Storage Hangar.

Budgetary Comparison Schedule (Budgetary Basis)

The *Budgetary Comparison Schedule (Budgetary Basis)* presents the budget as adjusted, the actual amounts, and the variance between the two as of June 30, 2017. Comments are provided following the statement to explain the significant variations.

The original budget for July 1, 2016 through June 30, 2017, was submitted to the City and the County along with the Authority's request for financial support in March 2016. This budget was prepared based upon actual financial data for the calendar year 2015. The final budget presented as part of the Authority's financial reporting included two types of adjustments.

First, the budget is modified at the beginning of the fiscal year to include revenue and expenditure balances for projects that were not completed. These balances were carried over to the current fiscal year.

The second type of adjustments are actions taken by the Authority during the current fiscal year that effect revenues and expenditures. This type of adjustment is based upon new projects approved during the fiscal year that were not planned nor included in the budget at the beginning of the year.

BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)

For the Year ended June 30, 2017

	Original and Final Budget (Budgetary Basis)	Actual (Budgetary Basis)	Variance with Favorable (Unfavorable)
OPERATING REVENUES			
Rent	37,420	37,169	251
Total Operating Revenues	37,420	37,169	251
OPERATING EXPENSES			
Maintenance	40,460	17,592	22,868
Utilities	22,200	20,208	1,992
Insurance	12,300	11,240	1,060
Travel and conventions	4,950	2,411	2,539
Audit	2,000	1,750	250
Advertising	1,160	723	437
Capital expenditures	378,860	10,183	368,677
Other	500	472	28
Total Operating Expenses – Budgetary Basis	462,430	64,579	397,851
Operating Income(Loss)	(425,010)	(27,410)	(397,600)
NON-OPERATING REVENUES(EXPENSES)			
Interest Income	50	27	23
Interest Expense	(3,061)	(2,111)	(950)
Intergovernmental			0
Lincoln County	25,940	25,940	0
City of Fayetteville	21,500	21,500	0
State of Tennessee maintenance grant	25,505	12,875	12,630
Total Non-operating Revenue(Expense)	69,934	58,231	11,703
Income(Loss) before Capital Contributions	(355,076)	30,821	(385,897)
CAPITAL CONTRIBUTIONS			
State of Tennessee capital grants	351,243	156,983	194,260
Total Capital Contributions	351,243	156,983	194,260
Net Income per Budgetary Basis	(3,833)	187,804	(191,637)
Reconciliation of Budgetary Basis to GAAP Basis			
Depreciation		(252,054)	
Capital Purchases		5,033	
Change in Receivables		(157,903)	
Change in Payables		4,905	
Net Reconciliation of Budgetary to GAAP		(400,019)	
INCREASE(DECREASE) IN NET POSITION		(212,215)	
NET POSITION, beginning of year		6,210,230	
NET POSITION, end of year		5,998,015	

The State of Tennessee provided a grant for maintenance of the airport in the amount of \$39,600 to reimburse the Authority 50% of actual and allowable expenses for services and goods received during the fiscal year. This total amount is included in the budget expenses along with the planned reimbursement of \$19,800 in revenues. Maintenance items are addressed as they occur and in some years the actual amount is greater than the grant amount and in other years less. The goal of the Authority is to sustain a well maintained airport and at the same time be good stewards of the resources available. During fiscal year 2017, maintenance requirements were less than the grant amount budgeted; therefore, the actual expenses and the related revenues were less than budgeted.

Travel consists of attending State meetings for planning and to request approval and funding for new projects. Also the Authority attends an annual State convention to stay current on the various State and Federal aspects of airport operation. The budget line item for Travel and Conventions was less than planned because three members of the Authority were unable to attend the convention.

The City, County, State and Federal governments provide funds for projects to improve or expand airport operations. During the current fiscal year, the Authority received grants which provided reimbursement of 95% of allowable project cost, except the maintenance grant which was 50%. The remaining portion of the grant amount is provided equally by the City and the County.

Some of the projects were not completed during the year, resulting in both expenses and capital contribution for the State, to be less than planned. The Obstruction Clearance project was budgeted for \$48,995. but due to added requirements by the State was not initiated during the year. A new project to develop engineering and design for the rehab of the taxiway and taxiway lighting was planned and added to the budget in the amount of \$132,000 during the latter part of the year, but not started until fiscal year 2018. Two other projects not completed include the Airport Layout Plan (awaiting final approval by the FAA) and the Pond Drainage (delayed due to inclement weather).

Debt Activity

The Authority currently has three outstanding loans which were for local funds to match State/Federal grants for the construction of hangars.

On January 24, 2008, The Authority borrowed \$60,000 from the First National Bank for an aircraft storage hangar. The payments were based upon a ten-year amortization with the expectation of renewal each three years. On January 19, 2011, the note balance of \$44,595 was renewed at 4.5% for three years with payments of \$621. The rate was reduced to 4% on February 9, 2012. On January 13, 2014, the note balance of \$27,377.25 was renewed for one year at the continuing rate of 4%. In January 2015 the note was renewed for three years at 3.5%. All payments have been made as scheduled and the Authority anticipates that the June 30, 2017 balance of \$3,334 will be paid by December 2017. Current rental agreements provide the resources to make the payments.

On January 19, 2011, the Authority borrowed \$50,500 from the First National Bank for a ten-unit T-Hangar at 4.5% with monthly payments of \$525. The rate on this loan was reduced to 4% on February 9, 2012. The payments were based upon a ten year amortization with the expectation of renewal each three years. On January 21, 2014, the note balance of \$37,654.90 was renewed for one year at the continuing rate of 4%. In January 2015 the note was renewed for three years at 3.5%. All payments have been made as scheduled and the Authority anticipates that the June 30, 2017 balance of \$19,301 will be paid about September 2020, depending on the negotiated interest rate in January 2018. Current rental agreements provide the resources to make the payments.

On June 24, 2013, the Authority borrowed \$30,000 from the First National Bank for the local funds required for a grant to construct a 12,000 square foot aircraft storage hangar. The loan was a construction type loan for one year with the principal and interest due June 24, 2014. Due to a delay in the project, due primarily to the onset of winter in-climate weather, it was necessary to extend the note for an additional year. Also an increase in price required that we increase the note to \$40,000 to cover the additional local funding requirement of the grant. This extension was made for one year at 3.0%. In June 2015 the construction loan was converted to an amortization loan in the amount of \$40,000 for three years at 3.0%. All payments have been made as scheduled and the Authority anticipates that the June 30, 2017 balance of \$32,965 will be paid about June 2025, depending on the negotiated interest rate and a renewal of the loan in June 2018 and each three years thereafter. Current rental agreements provide the resources to make the payments.

Discussion of Currently Known Facts, Decisions, or Conditions

The main objectives of the Authority are to:

- Provide superior service to all of Fayetteville, Lincoln County, and other areas with general aviation connections to our local area.
- Not only eliminate any detriments, but to increase the attraction of industrial development in our area.
- Provide security to the overall airport property including aircraft stored or parked.
- Maintain the facilities and structures of the Airport not only to assure compliance with Federal and State requirements but also to provide safety and security for pilots and their aircraft and passengers.
- To accomplish these objectives, the Authority has:
 - Leased the day to day operations of the airport to Fayetteville Aviation, Inc. one of the Southeast's premier full-service fixed base operators.

- Maintained the runway and taxiway surfaces to correct deterioration issues, assure proper runoff of rain water, and re-painting of all reflective runway markings.
- Maintained runway, taxiway, and approach lights for safety of night operations.
- Continued to improve access security to the Airport by replacing perimeter fencing and installing limited access security gates.
- Established an agreement with the Sheriff's Department to make periodic patrols to include the airport proper and the perimeter.
- Constructed additional hangars for the storage of both personal and corporate aircraft as the need arises.
- Purchased additional land adjoining the airport property to provide for the expansion of aircraft operations.
- Provided local Fayetteville Municipal Airport weather to pilots in-flight and on the ground.
- Provided USA-wide aviation weather for flight planning purposes.
- Provided communications with the Huntsville Air Traffic Control for aircraft prior to departure from the Fayetteville Municipal Airport during inclement weather.

Request for Information

This financial report is designed to provide a general overview of the Authority's responsibilities and actions for those with an interest in its finances. Questions concerning any of the information should be addressed to the Fayetteville-Lincoln County Regional Airport Authority, 37 Airport Road, Fayetteville, TN 37334.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 29,931
Project funds held by State of Tennessee	956
State of Tennessee grants receivable	<u>1,173</u>
Total Current Assets	<u>32,060</u>

NONCURRENT ASSETS

Capital assets, net of accumulated depreciation	<u>6,022,660</u>
Total Noncurrent Assets	<u>6,022,660</u>

TOTAL ASSETS

6,054,720

LIABILITIES

CURRENT LIABILITIES

Accounts payable	1,105
Current portion of long-term debt	<u>55,600</u>
Total Current Liabilities	<u>56,705</u>

NONCURRENT LIABILITIES

Long-term debt	55,600
Less current portion	<u>(55,600)</u>
Total Noncurrent Assets	<u>-</u>

TOTAL LIABILITIES

56,705

NET POSITION

Investment in capital assets	5,967,060
Restricted	956
Unrestricted	<u>29,999</u>
TOTAL NET POSITION	<u>\$ 5,998,015</u>

The accompanying notes are an integral part of these financial statements.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the Year Ended June 30, 2017

OPERATING REVENUES:

Rent	\$ 37,169
Total Operating Revenues	37,169

OPERATING EXPENSES:

Maintenance	17,837
Utilities	20,208
Insurance	11,240
Travel and conventions	2,411
Audit	1,750
Advertising	723
Depreciation	252,054
Other	472
Total Operating Expenses	306,695

Operating Income(Loss)	(269,526)
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NON-OPERATING REVENUES (EXPENSES):

Intergovernmental	
Lincoln County	25,940
City of Fayetteville	21,500
State of Tennessee maintenance grants	8,343
Interest income	27
Interest expense	(2,111)
Total non-operating revenues(expenses)	53,699

Income(Loss) before capital contributions	(215,827)
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CAPITAL CONTRIBUTIONS:

State of Tennessee capital grants	3,612
Total Capital Contributions	3,612

INCREASE(DECREASE) IN NET POSITION	(212,215)
NET POSITION, beginning of year	6,210,230
NET POSITION, end of year	\$ 5,998,015

The accompanying notes are an integral part of these financial statements.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from rents	\$ 37,169
Cash paid to suppliers for goods & services	<u>(54,396)</u>
Net Cash Used by Operating Activities	<u>(17,227)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Intergovernmental operations funding	<u>60,315</u>
Cash Provided by Noncapital Financing Activities	<u>60,315</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on notes payable	(162,500)
Principal paid on long-term liabilities	(16,278)
Interest paid on long-term liabilities	(2,111)
Payment of capital related accounts payable	(5,150)
Release of project funds held by the State of Tennessee	13,205
Addition to project funds held by the State of Tennessee	(1,000)
Additions to property and equipment	(5,033)
State of Tennessee capital grants	<u>156,983</u>
Cash Provided (Used) by Capital and Related Financing Activities	<u>(21,884)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	<u>27</u>
Cash Provided by Investing Activities	<u>27</u>

NET INCREASE IN CASH

21,231

CASH, beginning of year

8,700

CASH, end of year

\$ 29,931

RECONCILIATION OF OPERATING INCOME TO NET

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating income (loss)	\$ (269,526)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	252,054
Change in operating assets and liabilities:	
Increase in operating payables	245
Net Cash Used by Operating Activities	<u>\$ (17,227)</u>

The accompanying notes are an integral part of these financial statements.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note A - SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

The Fayetteville-Lincoln County Regional Airport Authority (the "Airport") is a joint venture by the City of Fayetteville (the "City") and Lincoln County, Tennessee (the "County") organized in accordance with TCA 42-3 Airport Authorities. The Airport has the ability to independently issue bonds, acquire property, and execute contracts in its own name but is currently dependent on the City and County for funding. The Airport has the responsibility to manage, lease, and control the land, buildings, and equipment of the Fayetteville-Lincoln County Regional Airport. The Airport is governed by a five member Board of Commissioners consisting of two members selected by the Lincoln County Board of Commissioners, two selected by the City of Fayetteville Board of Mayor and Aldermen, and a fifth member selected by the four other members. There were no potential component units of the Airport to consider for inclusion in these financial statements.

Basis of Accounting

The accounting policies and the reporting requirements of the Airport conform to generally accepted accounting principles as defined by the Governmental Accounting Standards Board (GASB). In previous years the Airport reported on the basis of a Governmental fund type. For 2017, the Airport has elected to report on the basis of a proprietary fund type based on the belief that it is a better presentation of leasing activities that generate the primary operating revenue of the Board. This change in presentation did not require an adjustment to net position at June 30, 2016. Revenues and expenditures previously reported in the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Balance-Governmental Funds and related reconciliation are reported in the Statement of Revenues, Expenses, and Changes in Fund Net Position. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred. Operating revenues include rental of Airport property and amounts received from other governments for ongoing operations of the Airport. Operating expenses include the cost of maintaining Airport property and other expenses required to provide the Airport's services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Airport classifies net position as:

- Investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the amount of outstanding notes or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, or laws or regulations of other governments. The Airport's restricted net position consists of funds placed with the State of Tennessee to provide the local share of grant projects.
- Unrestricted - This component of net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets".

When both restricted and unrestricted resources are available for use, it is the Airport's policy to use restricted resources first and then unrestricted resources as they are needed.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Capital Assets

Property and equipment is stated at cost. The capitalization threshold for an individual item is \$500.

Depreciation of capital assets is computed and recorded by the straight-line method. The estimated useful life of buildings is 39 years, the estimated useful life of land improvements and lighting is 15 years, and the estimated useful life of equipment is 5 years. Maintenance and repairs are charged to expense as incurred.

Statement of Cash Flows - Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Airport considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Deposits and Investments

State law restricts the Airport's investments to either United States Treasury or Agency obligations or to certificates of deposit insured or collateralized by direct United States Treasury obligations. In 2017 interest earned was all from interest-bearing checking accounts. As of June 30, 2017, the Airport's cash was within FDIC coverage limits.

The Airport has not adopted formal deposit or investment policies for exposure to various forms of risks associated with its deposit and investment practices, other than to follow State statutes as described above.

Budgetary Basis

The Airport prepares an annual operating budget for its own use as well as to request funding from the City and County. The operating budget includes proposed expenditures and the means for financing them. The budget is presented on the modified cash basis of accounting. The Airport is not required to demonstrate statutory compliance with its annual operating budget. Therefore, budgetary data is not included in the basic financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note B - NOTES PAYABLE

The Airport's notes outstanding at June 30, 2017 consisted of:

Note payable to First National Bank originated January 2008 at \$60,000. Most recently renewed January 2015 at \$20,914 bearing interest at 3.5%, due in 36 monthly payments of \$621.	\$ 3,334
Note payable to First National Bank originated as interim financing of \$50,500 in April 2010 and converted to permanent financing in January 2011. Most recently renewed in January 2015 at \$32,800. The note bears interest at 3.5% and is due in 36 monthly installments of \$525 and a final payment of \$16,484.	19,301
Note payable to First National Bank originated as interim financing of \$40,000 in June 2014, converted to permanent financing in June 2015. The note bears interest at 3% and is due in 36 monthly installments of \$386 and a final payment of \$29,618.	<u>32,965</u>
	<u>\$ 55,600</u>

Changes in note principal balances during the year ended June 30, 2017 are summarized as follows:

Beginning balance	\$ 71,878
Principal paid to bank	<u>(16,278)</u>
	<u>\$ 55,600</u>

Scheduled debt payments are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$ 55,600</u>	<u>\$ 1,333</u>	<u>\$ 56,933</u>

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note C - GRANTS

During the year ended June 30, 2017, the Airport received grants from the State of Tennessee Department of Transportation, Office of Aeronautics (the "State") which included pass through grants from the Federal Aviation Administration. The grants are for maintenance and improvement projects with the State reimbursing 50% of maintenance projects and 95% of most other projects costs. The acceptance of State assistance requires the Airport to give the State an equitable interest in equipment and land purchased with State funds and to operate the Airport for 20 years from the grant date. The schedule below summarizes State grant assistance for the year ended June 30, 2017:

	<u>June 30, 2016</u>	<u>Receipts</u>	<u>Adjustments</u>	<u>Eligible Costs</u>	<u>Grantor Share</u>	<u>June 30, 2017</u>
Airport Maintenance 16-17	\$ -	\$ 7,170	\$ -	\$ 16,687	\$ 8,343	\$ 1,173
Airport Maintenance 15-16	5,705	5,705	-	-	-	-
Pond Closure	-	4,306	-	4,533	4,306	-
Airport Layout Plan 14-1	4,893	4,893	-	-	-	-
Land Acquisition	<u>148,478</u>	<u>147,784</u>	<u>(694)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 159,076</u>	<u>\$ 169,858</u>	<u>\$ (694)</u>	<u>\$ 21,220</u>	<u>\$ 12,649</u>	<u>\$ 1,173</u>

Note D - CITY AND COUNTY SUPPORT

During the year ended June 30, 2017, the Airport received \$21,500 from the City and \$22,390 from the County for their portion of the budgeted operating expenses of the Airport, and \$3,550 from the County for separately budgeted Airport projects.

Note E - LEASES AND CONCENTRATION OF LEASE REVENUE

On December 1, 2013 the Airport renewed a lease agreement with a fixed base operator ("FBO"), for the period of December 1, 2013 through November 30, 2018, for the Airport buildings and surrounding land, excluding the buildings and land under separate leases described in the paragraphs below. The leased assets have an original cost and net book value at June 30, 2017 of \$2,309,715 and \$1,867,670, respectively. The lease includes two five-year renewal options with terms to be negotiated at exercise of the options. Rent payments consist of a fixed monthly rental of \$2,620 (increased from \$2,020 prior to July 1, 2015) plus 1.25% of fuel sold or used by the lessee, Fayetteville Aviation, Inc. Payments by the lessee in the current year related to fuel sales were \$1,965. The lessor is responsible for most repairs to the Airport premises and facilities. The lessee is responsible for minor repairs to the maintenance hangar, mowing, paying an allocated portion of utilities, maintaining a \$1,000,000 liability insurance policy and keeping the Airport available for public use. The Airport is obligated to expend lease payments received on Airport property improvements. Lease revenue from the FBO was approximately 90% of total lease revenue in the year ended June 30, 2017.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

At June 30, 2017, future non-cancellable rentals from the FBO for the 2018 and 2019 fiscal years are \$31,440 and \$13,100, respectively.

The Airport has a lease agreement with an individual for the period of February 1, 2017 to January 31, 2021 for a hangar building and approximately .75 acres of land for a monthly rental of \$140. The lease may be terminated by the lessee at any time.

During the year ended June 30, 2006 the Airport acquired 59.1 acres of real estate along the northern boundary of the Airport at a cost of \$414,443 in order to accommodate a 1,000 foot extension of the runway and taxiway, establish a 1,000 foot northern runway safety area, and provide the FAA required land control under the northern runway protection zone. Beginning January 1, 2006, the Airport leased the unrestricted portion of the property back to the seller for his use as cattle pasture for a monthly rental of \$150. The lease is a five year lease with five five-year renewal options with the second five year option being exercised in January 2016. Future rents are negotiable but limited to 3% annual increases. The lease is cancelable at the option of the lessee. The lessee is responsible for maintaining the property except that the Authority is responsible for individual repairs costing in excess of \$500.

Note F - PUBLIC ENTITY RISK POOL PARTICIPATION

The Airport is exposed to various risks related to general liability, hangarkeeper's liability, errors and omissions, and property and casualty losses. During 2017 the Airport participated in a public entity risk pool for coverage of errors and omissions and property and casualty losses. The Airport participated in the Tennessee Municipal League (TML) Risk Management Pool, which is a public entity risk pool established by the Tennessee Municipal League Association, an association of member municipalities. The Airport pays an annual premium to TML for its errors and omissions and property and casualty insurance coverage. The pool is created to be self-sustaining through member premiums and reinsures through commercial insurance companies for excess claims for each insured event.

The Airport maintains commercial insurance coverage for general liability and hangarkeeper's liability. Settled claims from these losses have not exceeded the commercial insurance coverage since the policy was acquired in the year ending June 30, 1996.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note G - CAPITAL ASSETS

The following summarizes changes in capital assets for the year ended June 30, 2017:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>June 30, 2017</u>
Non-Depreciable:			
Land	\$ 2,224,511	\$ -	\$ 2,224,511
Construction in progress	-	5,033	5,033
	<u>2,224,511</u>	<u>5,033</u>	<u>2,229,544</u>
Depreciable			
Runways/taxiways	4,567,847	-	4,567,847
Storage hangars	1,516,268	-	1,516,268
T-hangars	576,845	-	576,845
Other buildings, fences and equipment	686,909	-	686,909
Lighting/navigation equipment	420,991	-	420,991
Fuel equipment	142,276	-	142,276
	<u>7,911,136</u>	<u>-</u>	<u>7,911,136</u>
Total capital assets	<u>\$ 10,135,647</u>	<u>\$ 5,033</u>	<u>\$ 10,140,680</u>
Accumulated and current depreciation	<u>\$ 3,865,966</u>	<u>\$ 252,054</u>	<u>\$ 4,118,020</u>

Note H - SHORT-TERM DEBT FOR LAND ACQUISITION

On February 9, 2016 the Airport purchased land adjoining the Airport for \$325,000 for the purpose of future terminal area expansion. Funds for the purchase and related expenses were primarily provided by a State grant of \$302,556 along with City and County funding of \$29,108. At the request of the land owner, 50% of the purchase price was paid at closing and 50% was financed with a term note that bore no interest and was due and paid in January 2017.

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
For the Year Ended June 30, 2017

	Original and Final Budget (Budgetary Basis)	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
<u>OPERATING REVENUES:</u>			
Rent	\$ 37,420	\$ 37,169	\$ (251)
Total Operating Revenues	37,420	37,169	(251)
<u>OPERATING EXPENSES:</u>			
Maintenance	40,460	17,592	22,868
Utilities	22,200	20,208	1,992
Insurance	12,300	11,240	1,060
Travel and conventions	4,950	2,411	2,539
Audit	2,000	1,750	250
Advertising	1,160	723	437
Capital expenditures	378,860	10,183	368,677
Other	500	472	28
Total Operating Expenses-Budgetary Basis	462,430	64,579	397,851
Operating Income(Loss)	(425,010)	(27,410)	397,600
<u>NON-OPERATING REVENUES (EXPENSES):</u>			
Interest income	50	27	(23)
Interest expense	(3,061)	(2,111)	950
Intergovernmental			
Lincoln County	25,940	25,940	-
City of Fayetteville	21,500	21,500	-
State of Tennessee maintenance grants	25,505	12,875	(12,630)
Total Non-operating Revenues (Expense)	69,934	58,231	(11,703)
Income (Loss) before Capital Contribution	(355,076)	30,821	385,897
<u>CAPITAL CONTRIBUTIONS:</u>			
State of Tennessee capital grants	351,243	156,983	(194,260)
Total Capital Contributions	351,243	156,983	(194,260)
Net Income per Budgetary Basis	\$ (3,833)	\$ 187,804	\$ 191,637
<u>Reconciliation of Budgetary Basis to GAAP Basis</u>			
Depreciation		(252,054)	
Capital purchases		5,033	
Change in receivables		(157,903)	
Change in payables		4,905	
Net Reconciliation Budgetary to GAAP		(400,019)	
INCREASE(DECREASE) IN NET POSITION		(212,215)	
NET POSITION, beginning of year		6,210,230	
NET POSITION, end of year		\$ 5,998,015	

FAYETTEVILLE-LINCOLN COUNTY REGIONAL AIRPORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2017

	<u>CFDA</u> <u>Number</u>	<u>TAD Project</u> <u>Number</u>	<u>Contract Number</u>	<u>June 30, 2016</u>	<u>Receipts</u>	<u>Adjustments</u>	<u>Eligible Costs</u>	<u>Grantor Share</u>	<u>June 30, 2017</u>
Tennessee Department of Transportation									
Airport Maintenance 16-17		52-555-0452-17	AERM-17-118-00	\$ -	\$ 7,170	\$ -	\$ 16,687	\$ 8,343	\$ 1,173
Airport Maintenance 15-16		52-555-1650-04	AERM-16-118-00	5,705	5,705	-	-	-	-
Airport Layout Plan 14-1		52-555-0749-04	AERO-14-141-00	4,893	4,893	-	-	-	-
Total Tennessee Department of Transportation				<u>10,598</u>	<u>17,768</u>	<u>-</u>	<u>16,687</u>	<u>8,343</u>	<u>1,173</u>
Joint Federal Awards and State Assistance									
Land Acquisition	20.106	52-555-0151-16	AERO-15-185-00						
Federal				140,663	140,006	(657)	-	-	-
Tennessee Department of Transportation				7,815	7,778	(37)	-	-	-
Total Joint Federal Awards and State Assistance				<u>148,478</u>	<u>147,784</u>	<u>(694)</u>	<u>-</u>	<u>-</u>	<u>-</u>
				<u>\$ 159,076</u>	<u>\$ 165,552</u>	<u>\$ (694)</u>	<u>\$ 16,687</u>	<u>\$ 8,343</u>	<u>\$ 1,173</u>

Basis of Presentation

Note 1: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of the Airport Authority under programs of the Federal and Tennessee governments for the year ended June 30, 2017. The schedule is presented using the modified accrual basis of accounting.

DAVID A. KIDD
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners of the
Fayetteville-Lincoln County Regional Airport Authority:

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Fayetteville-Lincoln County Regional Airport Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fayetteville-Lincoln County Regional Airport Authority's basic financial statements and have issued my report thereon dated January 3, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Fayetteville-Lincoln County Regional Airport Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fayetteville-Lincoln County Regional Airport Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the Fayetteville-Lincoln County Regional Airport Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fayetteville-Lincoln County Regional Airport Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 3, 2018

DAVID A. KIDD